

# CALIFORNIA BOARD OF ACCOUNTANCY

April/June 1998 ★ Issue No. 38



Diane M. Rubin  
President

## President's Message

Tick, tick, tick. Time is counting down to January 1, 2000, the date that has global implications for an automated society. While it's not a day when the earth will stand still, many individuals in the business community believe it could be the day when computer systems worldwide will grind to a screeching halt. This is a problem for government organizations and businesses universally, and no entity involved in technology is exempt.

Call it the Year 2000 Problem, the Y2K Issue, Domsday 2000, or the Millennium Bug. Whatever we label it, what exactly is the "problem"? Briefly explained, to save computer memory storage space – and perhaps make it easier to enter a year date – most information systems recognize two digits as a four-digit year (for example, 98

represents 1998). These two-digit dates exist as information in millions upon millions of data files. Based on the fact that the automated business world has never experienced a century change, today most information systems – unless their programming has resolved the Y2K issue – will recognize 00 as 1900, not 2000.

Understandably, this can cause innumerable glitches. For instance, today if a person who was born in 1951 asks the computer to calculate how old he is, it will subtract 51 from 98 and will determine that he is 47. But on the first day of the new century, the computer will subtract 51 from 00 and say he is 51. This significant error will derail any formula that produces or utilizes time spans, such as an interest calculation or a benefit forecast. Another example is if a person wants to sort information by date, such as 1998, 1909, and 1968, today's computers would sort a sequence of 1909, 1968, and 1998. But if we add a date to the sequence, such as 2008, the computer – reading only the last two digits – would sequence the numbers 08, 09, 68, 98. This will be a problem, if the Y2K issue is not addressed.

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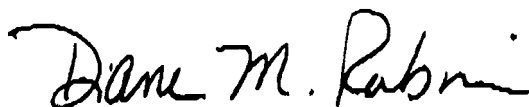
Recognizing the complexity of examination, licensure, continuing education, and enforcement issues which may be affected by the Millennium Bug, Year 2000 solutions and attendant risk management strategies are a Board of Accountancy priority. This Board, in conjunction with the Department of Consumer Affairs, has been addressing the Y2K issue to ensure that not only are information systems (including the Consumer Affairs System – CAS) Year 2000 compliant, but also that all essential systems are protected from corruption by other systems which are not Year 2000 compliant. The target date for finding and fixing Year 2000 problems in essential systems is no later than December 31, 1998.

Just as government is working to find Year 2000 solutions, so is business. For CPAs and PAs, accounting and auditing issues are hard-wired to the Y2K problem. This is front-line material for computer assurance services. Practitioners providing compilation and review services, if they aren't doing so already, will want to educate themselves about the Year 2000 issue as it relates to those engagements. Risk management and change management should be at the forefront for all practitioners, and that certainly includes comprehensive communication with clients regarding Y2K problems and solutions.

I know that many of you are thinking, "I thought computers were supposed to make our lives easier." I'm thinking the same thing myself. But we all can acknowledge the extraordinarily positive effect computers and software have had on our profession.

The good news is that in both government and business, the problem has been identified. The bad news is that some have not begun addressing the problem, and this is an instance in which time is assuredly not a friend. Back to the good news, there are many, many publications available about Y2K. The professional societies have formed task forces on the issue. There are seminars, expos, and conferences. The Internet is saturated with the subject. Information will be a powerful educational weapon in fighting the Y2K battle.

Speaking as President, I would note that this Board is committed to hit the mark and meet Year 2000 compliance challenges. Speaking as a licensed practitioner, because CPAs and PAs have an unimpeachable reputation for accuracy, computer systems delivering the wrong answers don't fit into our professional paradigm. The Year 2000 is a year and a half away, but the time to address the problem is now.



*Diane M. Rubin, CPA  
President*

## Mission Statement

**The mission of the Board of Accountancy is to protect the public welfare by ensuring that only qualified persons are licensed and that appropriate standards of competency and practice are established and enforced.**

## Vision Statement

**It is the vision of the Board of Accountancy to become the premier regulatory agency that operates with maximum efficiency, fosters continuous quality improvement, and provides exemplary consumer protection while recognizing the changing consumer demographics and nature of services provided by licensed professionals.**

# News to You

*Issues of Interest  
to the Consumer  
and  
to the Practitioner*

## Board Reduces Fees to \$50

Fees for license renewal and for the initial permit to practice will fall to \$50, effective July 1, 1998, and they will remain at that level until July 1, 2001. The fee reduction is part of the Board's efforts to reduce and stabilize the Accountancy Fund reserve at a level equal to approximately three months of operating expenses, as required by current law.

Fees are scheduled to increase to \$200 after July 1, 2001, unless the Board determines lower fees are necessary to maintain the reserve at the mandated level.

## Strategic Plan

Consistent with current law, the Board has updated its **Strategic Plan**, and has submitted it for approval by the Governor's Office and the Department of Finance.

This document is an overall plan for accomplishing the Board's mission and mandate with the resources it can reasonably expect to be available. Within the framework of state government, all strategic plans are linked to the budget process, and resource requests must be logically related to key objectives in an organization's strategic plan.

## Governor Signs CPA Commissions Bill

Governor Wilson has signed the CPA commissions bill, Senate Bill 1289 (Calderon); the legislation will be effective January 1, 1999. The law allows licensees to accept commissions for professional services to non-attest clients; however, referral fees will not be permitted.

Under the new law, licensees accepting commissions will be required to provide clients with written disclosure information, such as the amount of the commission or the basis upon which it was computed. In the near future, the Board will adopt regulations clarifying the disclosure requirements for licensees. As always, the notice for these regulations will be published in **UPDATE**.

## Board Pursues Equivalent Education Legislation for Foreign Applicants

The Board is sponsoring Assembly Bill 2771, authored by the Assembly Consumer Protection Committee, which updates education and exam requirements. Under current law, when determining an applicant's experience requirement for licensure, the Board cannot treat a foreign baccalaureate degree equivalent to a U.S. degree. For example, the Board cannot consider a degree from England's Oxford University to be of equal value to a degree from a California State college; AB 2771 is designed to correct this problem.

The bill also would enable the Board to accept grades from the new International Uniform Certified Public Accountant Qualification Examination (IQEX) as meeting the Board's examination requirement. The IQEX will be available to licensees from foreign countries that are deemed to have equivalent licensing standards. If enacted, during the current legislative session, ending November 30, 1998, the provisions of AB 2771 will be effective January 1, 1999.

# News to You

## Implementation of the Welfare Reform Act

To implement the Personal Responsibility and Work Opportunity Reconciliation Act (commonly known as the Welfare Reform Act), Governor Wilson has directed all California licensing agencies, including the Board of Accountancy, to adopt regulations to deny licensure to non-qualified aliens.

This Board has been working with other Department of Consumer Affairs' boards to develop a comprehensive implementation plan. Some of you may have read elsewhere that licensees must provide documentation of citizenship or legal alien status with renewals after July 1, 1998, but the date for implementation of the requirement has not yet been established. As information becomes available on this subject, it will be provided in future issues of **UPDATE**.

## Board Provides Recommendations for International Trade Agreement

With the assistance of the Attorney General's Office, the Board has made recommendations to the Office of the U.S. Trade Representative on an international trade agreement regarding regulation of the practice of public accountancy. The goal of the agreement is to eliminate practice barriers across international borders. It is anticipated that negotiations resulting in a treaty – or a binding executive agreement (which is the equivalent of a treaty) – will be completed by the end of 1998.

Public accounting is the first profession to be the subject of such an agreement. It is expected that similar agreements for the practice of other professions will follow.

## Preparation for Sunset Review Begins

The Board has begun preparation of its second sunset review report, due to the Legislature in October 1999. A committee of Board members, chaired by Secretary-Treasurer Baxter Rice, has been appointed to oversee development of the report.

### Policy of Nondiscrimination

*on the Basis of Disability and Equal Employment Opportunity*

The California Board of Accountancy does not discriminate on the basis of disability in employment or in the admission and access to its programs and activities.

An Americans with Disabilities Act (ADA) Coordinator has been designated to coordinate and carry out this agency's compliance with the nondiscrimination requirements of Title II of the ADA.

Information concerning the provisions of the ADA, and the rights provided thereunder, is available from:

ADA Coordinator  
California Board of Accountancy  
2000 Evergreen Street, Suite 250  
Sacramento, California 95815-3832

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# Welcome to Our New Web Site



**CBA**

2000 Evergreen Street, Suite 250

Sacramento, CA

95815-3832

(916) 263-3680

Facsimile (916) 263-3785

The Board is now on the World Wide Web with a new informational site. The address is [www.dca.ca.gov/cba/](http://www.dca.ca.gov/cba/), and the site posts information useful to both consumers and licensees.

The California Board of Accountancy Home Page features eight primary topics:

- About the Board
- Mission and Vision Statements
- How Do I File a Complaint?
- Professional Conduct & Ethics Courses
- Meeting Calendar
- Exam Schedule and Locations
- Telephone Directory
- How to Select a CPA

In addition, the site is linked to the Accountancy Act (Business and Professions Code, Sections 5000 et seq).

This site is maintained by the Legislative Counsel's office. The California Code of Regulations will not be available on-line from the Office of Administrative Law (OAL) until July 1, 1998. At that time, this Board will provide an OAL page link to the Accountancy Regulations.

Currently, the Department of Consumer Affairs hosts our Web Pages, and our new pages include only posted information. To date, the only form available to visitors is the Board's complaint form. By year's end, however, the Board plans to host its own pages, and begin implementation of interactive features for both consumers and licensees. These features will include forms that could be downloaded by the page visitor, as well as the ability to conduct on-line license status checks.

Other Department of Consumer Affairs' Web sites are available at [www.dca.ca.gov](http://www.dca.ca.gov). ★



# Accounting and Auditing CE Requirement: Get Ready, Get Set, It Starts in July

The time when some licensees will need to have completed 24 hours of continuing education (CE) in accounting and auditing (A&A) subjects is fast approaching.

There has been a surge of inquiries at the Board office as licensees rush to understand the requirement and complete appropriate courses. Here are some of the most common licensee questions and Board responses:

**Q:** My license expires on August 31, 1998. Do I need to have the 24 hours of A&A completed before my renewal this year, or when I renew in the year 2000?

**A:** You must have it completed by August 31, 1998, for your 1998-2000 renewal. Beginning July 1, 1998, the Board will be monitoring for completion of the 24-hour A&A requirement.

**Q:** I'm a tax practitioner, but I issued one compilation report last year for a client. Do I have to complete 24 hours of CE in accounting and auditing subjects?

**A:** Yes. It doesn't matter how many reports you issue or what level of service the report is. If you issued at least one, you are subject to this requirement and must complete 24 hours of appropriate courses.

**Q:** I prepare the compilations, but don't sign them, so do I still have to complete this 24-hour A&A requirement?

**A:** Yes, everyone who prepares and reports on financial statements (even when the computer does most of the work) is performing "substantial portions of the work," whether or not another individual reviews and

signs. When another person is responsible for signing, both the preparer and the signer will have to meet the A&A requirement.

**Q:** Where can I get a list of courses that will meet the A&A requirement?

**A:** The Board does not pre-approve courses. As a licensee, you are responsible for selecting these courses. As long as you choose appropriate courses in the field of study, you will be deemed to be in compliance.

Accounting and auditing includes accounting and financial reporting subjects, the body of knowledge dealing with recent pronouncements of authoritative accounting principles issued by the standard-setting bodies, and any other related subjects generally classified within the accounting discipline.

It also includes auditing subjects related to the examination of financial statements, operations systems, and programs, the review of internal and management controls, and the reporting on the results of audit findings, compilation, and review.

**Q:** What will happen if I'm selected for a verification of my CE and the Board disagrees with a course I claimed to fulfill A&A requirement?

**A:** The goal of all continuing education is to maintain or enhance licensees' competence to practice. Licensees should choose courses that are relevant to the appropriate subject. Also, be prepared to show how this course meets the definition of an appropriate course. If the Board finds that a course does not meet

the requirement, a licensee may be allowed to "make-up" the hours.

**Q:** I did one government audit and I have done a few compilations. Do I have to complete 24 hours of governmental CE and another 24 hours of accounting and auditing?

**A:** No. You should take the courses you believe you need to ensure that you are a knowledgeable and competent practitioner. Courses that meet the government requirement will meet the A&A requirement, but most courses that meet the A&A requirement will not meet the government requirement — unless related to governmental accounting or auditing. Remember the goal of all CE: to be competent to perform the work you undertake.

**Q:** The requirement to complete 24 hours of CE in governmental subjects if performing governmental audits is not new. Have there been any changes in that requirement?

**A:** Yes, proration of government hours based on when the engagement began is no longer in the regulation. Instead, there is an extension of time to complete government CE if you become subject to the requirement in the last six months before your license expires. For more information, see the following question and answer on A&A extensions. The extension process is the same whether for governmental or A&A continuing education.

**Q:** What will happen if the first time I perform an engagement which makes me subject to this requirement is too near my expiration date to be able to complete the necessary 24 hours of A&A?

continued on page 11

# It's About Time: New Renewal Dates for Corporations and Partnerships

The Board recently mailed all corporation renewal notices. In reviewing your firm's corporation license renewal, you may have observed a significant change.

Effective July 1, 1998, the Board will implement what is termed "cyclical/biennial" renewals for corporations. This cycle will be consistent with the process by which the Board's licensees currently renew their individual licenses.

In the past, all corporations renewed by June 30 of an even year; however, they now will begin renewing on a monthly basis throughout the year. In the new

system, firm license expiration dates are now being determined by the month and year in which the firm's license was approved. For instance, if a firm was approved in an odd-numbered year, the license will expire in an odd year; if approved in an even-numbered year, the license will expire in an even year.

The new renewal form includes an enclosure explaining the changes in both the renewal date and the renewal fee owed. Renewal fees have been prorated, based on the firm's new expiration date.

Approximately three to six weeks after the corporation's renewal has

been processed, a renewal receipt reflecting the firm's new expiration date will be mailed to the licensee.

At this time, only corporation renewals have been converted to the cyclical/biennial system. In December 1998, cyclical/biennial renewal for partnerships will be implemented. The next issue of **UPDATE**, No. 39, will detail the new renewal system for partnerships.

If you have not received your corporation's renewal, or if you have questions, please contact Ms. Dottie Hays at (916) 263-3944 or Mr. Lance Taber at (916) 263-3948. ★

## Enforcement Program Oversight Committee

While most of the Board's committees are composed of licensee members, two of its policy committees are comprised of only Board members: the Committee on Professional Conduct and the Enforcement Program Oversight Committee (EPOC). This article summarizes the EPOC's history, composition, and activities.

In 1995, the Board of Accountancy formed the EPOC for two primary purposes:

- w To study broad policy issues that relate to the Board's Enforcement Program.

- w To perform periodic internal audits of closed cases to maximize program efficiency.

The committee's membership currently includes five Board members: Dick Poladian, who serves as Chair, and Harry E. "Mik" Mikkelson, Baxter Rice, Robert Shackleton, and Joseph Tambe.

During the last year, the EPOC has studied and made recommendations on a number of interesting and challenging issues. Examples include the establishment of performance measures for the Enforcement Program, clarification of the Board member liaison's role in major cases, and adoption of mediation

as a tool to help narrow or resolve disputes in enforcement matters.

The EPOC meets approximately five times per year, and public participation is welcome. If you would like to receive future EPOC meeting announcements and meeting agendas, please contact Ms. Michele Santaga of the Board's staff at (916) 263-3975 .

The next issue of **UPDATE**, No. 39, will feature an article on the role and responsibilities of the Board's Committee on Professional Conduct. ★

# Technical Skills + Personal Qualities = Appointment to a Board Committee

The Board is encouraging licensees to consider applying for current year or 1999 committee appointments. Recent past issues of **UPDATE** have outlined the purpose and functions of the committees, as well as the benefits an individual's service may provide to both the consumer public and the profession. Previous articles have described the technical knowledge required of a committee member; the purpose of this article is to explore the role of the committee appointee and describe professional and personal qualities desired in the licensee who wishes to serve.

There are three committees of the Board to which licensees can request appointment: the Qualifications Committee, the Report Quality Monitoring Committee, and the Administrative Committee. In all cases, the Board is looking for committed individuals willing to volunteer their time, effort, and unique skills to meet the mission of the Board.

The **Qualifications Committee** assists the Board by reviewing the experience of applicants for licensure and making recommendations to the Board. The committee's efforts are critical to ensuring that only qualified persons are licensed, and it accomplishes this by conducting workpaper reviews with:

- ♦ the applicant present, or
- ♦ the employer present to verify the responses provided are reflective of the requisite experience for licensure.

The Report Quality Monitoring Committee plays an essential role in ensuring appropriate levels of

competency are maintained. This committee does this by:

- ♦ reviewing financial reports of a selected sample of licensees to ensure appropriate standards of practice are being met, and
- ♦ recommending appropriate continuing education courses to remediate any deficiencies found.

The **Administrative Committee** assists the Board by advising and reviewing all violations, both those related to the standards of practice – such as gross negligence – and those which involve ethical issues, such as dishonesty or fraud. The committee achieves this by:

- ♦ monitoring investigations, and
- ♦ conducting investigative hearings.

## Technical Skills

The technical skills necessary to function effectively as a member of one of the three committees are circumscribed by the responsibility and function of a particular committee. Technical expertise is somewhat easier to determine and define, and these skills can be evaluated by others. However, the professional and personal qualities desired in a committee appointee must, of necessity, be self-evaluated and self-determined.

These attributes include:

- ♦ Integrity.
  - ♦ Commitment to quality.
  - ♦ Openness.
  - ♦ Initiative.
  - ♦ Respect.
  - ♦ Accountability.
  - ♦ Willingness to work in a Team.
- Not coincidentally, these

attributes are identical to the core values of this Board, and they uphold the guiding principles which support the Board's mission.

If you are one of the extraordinary professionals who is willing to donate time and energy (expenses are reimbursed under state policy, and appointees are paid a nominal stipend for each meeting), you will be compensated by being an integral part of an organization challenged to provide consumer protection amidst changing consumer demographics and the evolving nature of the profession.

Licensees who are interested in serving during 1999 are encouraged to submit a Letter of Interest identifying the committee to which they would like to be appointed. To determine if a conflict of interest exists, it is important that applicants include an outline of duties and responsibilities to any society or organization of which the licensee is a member. A résumé or *curriculum vitae* including the CPA or PA license number should be included. Applications and résumés are requested no later than October 8, 1998.

Please send your letter of intent and accompanying résumé or *curriculum vitae* to:

Carol Sigmann, Executive Officer  
Board of Accountancy  
2000 Evergreen Street, Suite 250  
Sacramento CA 95815-3832

Applicants with questions about committee responsibilities, committee member qualifications, or the appointment process may telephone Ms. Irene Yokoyama at the Board's office at (916) 263-3690. ★



# Enforcement Matters

## Prosecution and Settlement

In an effort to better inform licensees of the activities of the Board's Enforcement Division, we are publishing a series of original articles about the enforcement process. In previous articles, we examined the origins of complaints, the processes by which those complaints are screened, and how the Board conducts its investigations. In the third article of this series, we discuss what takes place when an investigation leads the Board's Executive Officer to file an Accusation against a licensee.

### Accusations

When the evidence gathered during an investigation clearly and convincingly indicates that a licensee committed one or more violations of the Accountancy Act, the Board's Executive Officer may file an Accusation against the licensee. Accusations are generally filed in cases in which the licensee's conduct exhibits an extreme departure from applicable standards of practice or demonstrates actual consumer harm and/or a significant potential for continued harm.

Once an Accusation has been signed by the Board's Executive Officer, the Attorney General's Office will serve the licensee with a copy of the Accusation by mail. The licensee, having been legally served, has 15 days within which to respond to the Attorney General with a Notice of Defense. Filing a

Notice of Defense is a critical step for the licensee – without a timely-filed Notice of Defense, the Attorney General will prepare a Default Decision for adoption by the Board, in which case the sanctions sought in the Accusation (usually license revocation) will be automatically instituted because the licensee declined the benefit of a hearing.

### Office of Administrative Hearings

If the licensee does file a timely Notice of Defense, this action preserves his or her right to a public hearing before an Administrative Law Judge, and the matter will be calendared for hearing with the Office of Administrative Hearings.

At the hearing, a Deputy Attorney General acts as the prosecutor, presenting the Board's case. The Deputy Attorney General prosecuting the case will present evidence, call witnesses, and cross-examine defense witnesses. The licensee has the right to cross-examine the Board's witnesses and to present any evidence in defense of his or her position. Usually, legal counsel represents the licensee, although the licensee may choose the option of self-representation.

After both the prosecution and the defense have presented their cases, the Administrative Law Judge renders a proposed decision in writing within 30 days of the

hearing. To become effective, the proposed decision must be formally adopted by the Board of Accountancy. Should the Board decide not to adopt a particular proposed decision, it has 100 days in which to either:

Decide the case itself based upon the official record, including the transcript of the administrative hearing, or

Refer the matter to the Administrative Law Judge to take additional evidence.

In the past eight years, nearly all California Board of Accountancy cases taken to administrative hearings have resulted in some form of disciplinary sanction against the licensee, with most such cases ending in a decision to revoke the license to practice.

### Stipulated Settlements

Prior to the scheduled hearing date – to avoid the hearing process described above – the licensee may wish to engage in settlement negotiations. Such negotiations are conducted between the licensee (or, as is most often the case, the licensee's legal counsel) and the Attorney General's Office, which acts as the Board's legal representative.

In the final segment of this series, the next issue of **UPDATE**, No. 39, will feature an article on the last phases of the enforcement process – disciplinary action and probation. ★

# Save \$1,000 By Letting Us Know You've Moved

In meeting its statutory responsibility to protect consumers and keep licensees apprised of important information – including changes in the Accountancy Act and Accountancy Regulations – the Board is conducting a two-year project focusing on the California Code of Regulations, Title 16, Division 1, Section 3: Notification of Change of Address. The project, which started in October 1997, centers on the number of returned undeliverable **UPDATES**. The mailing of **UPDATE** Issue No. 36, for instance, resulted in the Board's receiving approximately 960 returned **UPDATES**.

## Section 3 states in part:

- (a) Each licensee shall report to the Board in writing any change in his or her address of record within 30 days after the change. The report shall include the licensee's previous address of record. The address of record is public information. Each licensee shall report to the Board in writing any change in his or her telephone number within 30 days after the change. The report shall include the licensee's previous telephone number.

- (b) If the address of record is not the licensee's primary place of employment or residence or is a post office box or mail drop, then the licensee shall also report the street address and telephone number of either his or her primary place of employment or his or her residence.

To identify licensees with undeliverable addresses, the Board has added an "Address Correction Requested" notation to the **UPDATE**. This designation allows the post office to notify the Board if there is a forwarding address for the licensee. *It is important to note that although the Board may receive a forwarding address from the post office, an official address of record cannot be changed without a written notification from the licensee.* This is to protect the licensee from being victimized by another individual changing the practitioner's address as a prank or a malicious act.

Efforts to contact licensees with undeliverable addresses include researching credit reporting systems and using the World Wide Web. In regard to the

returned **UPDATE** No. 36 issues, the Board issued a certified written notification of potential violation and an address change form to licensees whose forwarding addresses were located. Of the 831 licensees located, 80% have provided a change of address. The remaining licensees, who did not provide a change of address, will receive a citation & fine notification, in accordance with California Code of Regulations, Title 16, Section 95.2. Such fines can be assessed up to \$1,000 per violation.

For the convenience of the licensee, the inside back cover of each **UPDATE** provides an address change form. Keeping copies of this publication in your reference library will ensure that you always have a copy of this form, should it be needed.

If you have moved and have not notified the Board, you can fax your change of address to (916) 263-3675 or mail it to:

Ms. Joy DeVega  
Board of Accountancy  
2000 Evergreen Street, Suite 250  
Sacramento CA 95815 ★

# Citations and Fines:

## Failure to Respond is not an Option

Compliance with a citation and fine issued by the Board of Accountancy is not optional; failure to do so could result in revocation of a practitioner's license. In all instances, a licensee who has an outstanding administrative fine owed to this Board cannot renew the license without payment of both the renewal fee and the fine.

The California Accountancy Act and the Accountancy Regulations authorize the Board to issue a citation. Each citation may contain an order of abatement and an order to pay an administrative fine when the licensee is in violation of statutory or regulatory provisions.

Once a citation is issued, the licensee is provided 30 days in which to comply or appeal and request the matter to be set for hearing. Failure to comply or appeal within this 30-day time period has negative consequences:

As noted previously, the outstanding administrative fine will be added to the license renewal – and the licensee will be unable to renew without payment of both the outstanding fine and renewal and delinquent fees, if applicable.

A licensee who fails to resolve this outstanding matter could subject his or her license to formal disciplinary action, possibly resulting in license revocation.

For the reasons detailed here, prompt attention to the issuance of a citation and fine is the proper response.

### 1998 Citation and Fine Summary

During the period January 1, 1998, through April 10, 1998, the Citation and Fine Unit issued 18 citations to 16 licensees, resulting in more than \$11,000 in administrative fines.

The following details the violations for which citations and fines were issued during the above period:

Citations Issued	Business and Professions Code	
8	§ 5050	Practice without Permit
1	§ 5055	Title of CPA
2	§ 5071	Restriction on Practice as Partnership
1	§ 5152	Corporation Annual Report Filing
1	§ 5154	Directors Shareholders Must be Licensed
California Code of Regulations		
2	§ 67	Fictitious Name Approval
3	§ 68	Record Retention



Q&A continued from page 6

**A:** If you have completed the basic 80-hour requirement, you may indicate on your renewal form that you want a six-month extension to complete your A&A or government hours. This is **ONLY** available when the basic 80-hour CE requirement has been completed. The necessary hours must be completed and reported to the Board within six months of your license expiration date. Compliance with this extension will be monitored. Failure to comply could lead to the inability to renew active in the future, and possibly a citation and fine. ★

# Regulation Notice

## **Title 16. Board of Accountancy**

NOTICE IS HEREBY GIVEN that the Board of Accountancy is proposing to take the action described in the Informative Digest. Any interested person may present statements or arguments orally or in writing relevant to the action proposed at a hearing to be held at the Hyatt Regency Hotel, 17900 Jamboree Road, Irvine, California 92614, on September 18, 1998, at 11:30 a.m. Written comments must be received by the Board at its office no later than 5:00 p.m. on September 17, 1998, or must be received by the Board at the hearing. If submitted at the hearing, it is requested, although not required, that 20 copies be made available for distribution to Board members and staff. The Board, upon its own motion or at the instance of any interested party, may thereafter adopt the proposal substantially as described below or may modify the proposal if the modifications are sufficiently related to the original text. With the exception of technical or grammatical changes, for 15 days prior to its adoption, the full text of any modified proposal will be available from the person designated in this notice as contact person and will be mailed to those persons who submit written or oral testimony related to this proposal or who have requested notification of any changes in the proposal.

Authority and Reference: Pursuant to the authority vested by Business and Professions Code Sections 125.9, 148, 5010, 5018, 5079, and 5157, and to implement, interpret or make specific Business and Professions Code Sections 125.9, 148, 5010, 5018, 5070.7, 5079, 5100(f), 5151, 5152, 5152.1, and 5154, and Corporations Code Sections 13403, 13406, 13407, 13408, and 13410, the Board is considering changes to Division 1 of Title 16 of the California Code of Regulations as follows:

### **Informative Digest/Plain English Policy Statement Overview**

1. Adopt Section 51 and amend Sections 75.9 and 75.11 of Title 16 of the California Code of Regulations.

Business and Professions Code Sections 5010, 5018, and 5157 authorize the Board to adopt regulations. Business and Professions Code Section 5152.1 provides for the renewal of accountancy corporation registrations, and Section 5070.7 provides for the cancellation of these registrations for nonpayment of renewal fees. Business and Professions Code Section 5079 was enacted in 1997 (Chapter 921) to permit nonlicensees to be minority owners in public accounting firms. Section 5079 requires the Board to adopt regulations.

Current Section 75.9 of Title 16 of the California Code of Regulations provides for the transfer of shares of stock in accountancy corporations. Current Section 75.11 of Title 16 of the California Code of Regulations provides for the suspension and revocation of accountancy corporation registrations and for the notification of address changes for these corporations.

This proposal would update Sections 75.9 and 75.11 to be consistent with Business and Professions Code Sections 5070.7 and 5079. It would also delete the change of address notification provision in Section 75.11 as it is duplicative of another Board regulation.

This proposal would also add Section 51 to require that firms with nonlicensee owners (both accountancy partnerships and corporations) certify that nonlicensee owners have been informed regarding the rules of professional conduct.

The objective of this proposal is to update regulations for greater consistency with current law and to ensure that nonlicensee owners are informed regarding the rules of professional conduct for public accounting firms.

2. Amend Section 89.1 of Title 16 of the California Code of Regulations.

Business and Professions Code Sections 5010 and 5018 authorize the Board to adopt regulations.

Current Section 89.1 of Title 16 of the California Code of Regulations authorizes the Board to request, from licensees selected on the basis of a statistical sampling, copies of financial reports. These reports are reviewed by the Report Quality Monitoring

Committee as described in Section 87.6 in order to monitor and promote compliance with applicable accounting principles and reporting standards.

This proposal would revise Section 89.1 to clarify the role of the Report Quality Monitoring Committee and to permit licensees to be selected for participation through referral from another committee of the Board.

The objective of this proposal is to improve the effectiveness of the Report Quality Monitoring Program and the Report Quality Monitoring Committee by permitting referrals to the program from other committees of the Board.

3. Amend Section 95.2 of Title 16 of the California Code of Regulations.

Business and Professions Code Section 5010 authorizes the Board to adopt regulations. Business and Professions Code Section 125.9 authorizes boards within the Department of Consumer Affairs to establish, by regulation, a system for the issuance of citations and fines for their licensees. Business and Professions Code Section 148 authorizes the establishment of a similar system for unlicensed persons.

Current Section 95.2 of Title 16 of the California Code of Regulations provides a range of fines for various violations of applicable statutes and regulations. This proposal would revise Section 95.2 to update the descriptive names of the listed statutes and regulations and to add a range of fines for additional statute and regulation sections.

The objective of this proposal is to update the schedule of fines to make it consistent with the current descriptive names of and recent revisions to applicable statutes and regulations.

### **Fiscal Impact Estimates**

Fiscal Impact on Public Agencies including Costs or Savings to State Agencies or Costs/Savings in Federal Funding to the State: Insignificant. This proposal updates regulations related to established programs. Since the Board currently registers accountancy partnerships and corporations, the certification that would be required by new Section 51 can be incorporated into existing procedures.

Nondiscretionary Costs/Savings to Local Agencies: None

Local Mandate: None

Cost to Any Local Agency or School District: None

Business Impact: The Board of Accountancy has determined that the proposed regulatory action would have no significant adverse economic impact on California business enterprises and individuals, including the ability of California businesses to compete with businesses in other states.

Impact on Jobs/New Businesses: The Board of Accountancy has determined that this regulatory proposal will not have a significant impact on the creation or elimination of jobs within the state of California, the creation of new businesses or the elimination of existing businesses within the state of California, or the expansion of businesses currently doing business within the state of California.

Cost Impact on Private Persons or Entities: Insignificant

Housing Costs: None

### **Plain English Requirement**

The Board of Accountancy has determined that the proposed regulations would affect small businesses. The express terms of the proposed action written in plain English are available from the agency contact person named in this notice.

### **Consideration of Alternatives**

The Board must determine that no alternative which it considered would either be more effective than, or as effective as and less burdensome on, affected private persons than the proposal described in this notice.

Any interested person may present statements or arguments orally or in writing relevant to the above determinations at the above-mentioned hearing.

### **Statement of Reasons and Information**

The Board has prepared a statement of reasons for the proposed action and has available all the information upon which the proposal is based.

### **Text of Proposal**

Copies of the exact language of the proposed regulations and of the statement of reasons and other information, if any, may be obtained at the



hearing or, prior to the hearing, upon request from the Regulations Coordinator, Board of Accountancy, 2000 Evergreen Street, Suite 250, Sacramento, California 95815-3832.

## **Text of the Proposal**

### **Section 51. Firms with Nonlicensee Owners.**

At initial registration and at renewal, all firms shall certify that any nonlicensee owner with his or her principal place of business in this state has been informed regarding the rules of professional conduct applicable to accountancy firms. This certification shall be signed by a licensed partner or licensed shareholder of the firm.

Note: Authority cited: Sections 5010, 5018, and 5079, Business and Professions Code. Reference: Section 5079, Business and Professions Code.

### **Section 75.9. Shares: Ownership and Transfer.**

(a) Except as provided in subsection (b), The the restrictions prescribed by Sections 13406 and 13407 of the Corporations Code shall be clearly set forth on each share certificate and in corporate by-laws, or the corporate by-laws and the share certificates of an accountancy corporation shall contain an appropriate passage or legend referring to the restrictions set forth in Sections 13406 and 13407 of the Corporations Code.

(b) For an accountancy corporation which has nonlicensee owners, the conditions and restrictions on nonlicensee ownership specified in Section 5079 of the Accountancy Act shall be clearly set forth on each share certificate issued to a nonlicensee and in the corporate by-laws of the accountancy corporation.

NOTE: Authority cited: Sections 5010, 5079 and 5157, Business and Professions Code. Reference: Sections 5079, 5151 and 5154, Business and Professions Code; and Sections 13403, 13406, 13407, 13408 and 13410, Corporations Code.

### **Section 75.11. Certificate of Registration; Continuing Validity; Notification of Name and Address Changes.**

(a) A Certificate of Registration shall continue in effect until it is cancelled, suspended, or revoked.

Such certificate may be cancelled for failure to renew as stated in Business and Professions Code Section 5070.7. Such certificate may be suspended or revoked for any of the grounds outlined in Section 13408 of the Corporations Code.

(b) Each accountancy corporation shall report to the board any and all changes of address, corporate name and shareholders within 30 days of any such change, giving both its old and its new address or names.

NOTE: Authority cited: Sections 5010 and 5157, Business and Professions Code. Reference: Section Sections 5070.7, 5152, and 5152.1, Business and Professions Code and Section 13408, Corporations Code.

### **Section 89.1. Review of Financial Statements.**

(a) For purposes of monitoring and promoting compliance with applicable accounting principles and reporting standards, the Report Quality Monitoring Committee The Board may request require licensees, selected on the basis of a statistical sampling or upon referral from another committee of the Board, to supply copies of selected financial reports they have issued during the previous two years. Requests shall be directed only This requirement applies to those licensees who, within the previous two years, have had primary responsibility for, and authority to sign, financial report(s). The financial report or reports to be submitted shall be selected by the responding licensee and shall reflect the highest level of service rendered by such licensee.

For purposes of this regulation, financial report shall mean the licensee's report (audit, review or compilation) and financial statements with accompanying footnotes and supplementary financial data, if any.

(b) Willful failure or refusal of a licensee to comply with the Board's written request for a copy of financial report(s), within 30 calendar days of the licensee's receipt of that request, constitutes a violation of Section 5100(f) of the Accountancy Act.

NOTE: Authority cited: Sections 5010 and 5018, Business and Professions Code. Reference: Sections 5010 and 5018, Business and Professions Code.

**95.2. Fines.**

The Executive Officer of the Board shall assess fines in accordance with the following schedule provided however, in no case shall the total exceed \$2,500 for each investigation.

<b>Rule*</b>	<b>Description</b>	<b>Range Of Fines</b>
3	Notification of Change of Address	\$100 to \$1,000
5	Observance of Rules	200 to 2,000
52	<del>Licensee Shall Respond</del> <u>Response to Board Inquiry</u>	200 to 2,000
52.1	Failure to Appear	200 to 2,000
53	Discrimination Prohibited	200 to 2,000
54.1	<del>Confidential Relationship</del> <u>Disclosure of Confidential Information Prohibited</u>	200 to 2,000
54.2	<del>Confidential Information-Recipients</del> <u>Recipients of Confidential Information</u>	200 to 2,000
55	Permission to Use Name	200 to 2,000
57	Incompatible Occupations/Conflict of Interest	200 to 2,000
58	Accountant's Report	200 to 2,000
62	Contingent Fees	150 to 2,000
63	Advertising	100 to 2,000
65	Independence	300 to 2,500
66	Plural Designations	100 to 2,000
66.1	Name of Accountancy Corporation	100 to 2,000
67	<del>Fictitious Name Approval</del> <u>Approval of Use of Fictitious Name</u>	100 to 2,000
68	<del>Record Retention</del> <u>Retention of Client's Records</u>	150 to 2,000
68.1	<u>Working Papers Defined; Retention</u>	<u>500 to 500</u>
69	<del>Form Certification</del> <u>Certification of Applicant's Experience</u>	150 to 2,000
75.11	Certificate of Registration; Continuing Validity; <del>Notification of Name and Address Change</del>	100 to 1,000
80	Inactive License Status	150 to 2,000
87	<del>Continuing Education Rules</del> <u>Basic Requirements</u>	100 to 2,000
87.1	<u>Return to Active Status Prior to Renewal</u>	<u>100 to 2,000</u>
87.5	<u>Additional Continuing Education Requirements</u>	<u>100 to 2,000</u>
87.6	<u>Records Review Continuing Education Requirements</u>	<u>100 to 2,000</u>
87.7	<u>Continuing Education in the Accountancy Act, Board Rules, and Other Rules of Professional Conduct</u>	<u>100 to 2,000</u>
89	<del>Control for Reporting Continuing Education</del> <u>Control and Reporting</u>	100 to 1,000
89.1	Review of Financial Statements	100 to 1,000
90	<u>Exceptions and Extensions</u>	<u>100 to 2,000</u>
94	Failure to Comply	150 to 2,000

\*References for Rules are to sections of Title 16 of the California Code of Regulations.

**Business and Professions Code Section**

<b>Rule*</b>	<b>Description</b>	<b>Range Of Fines</b>
123	<del>Subversion of Licensing examinations or administration of examinations; conduct constituting violation; penalty</del> <u>Subversion of the Licensing Examination</u>	\$100 to \$1,000
490	<del>False Statement About Conviction of a Crime</del> <u>Conviction of a Crime – Substantial Relationship Required</u>	200 to 2,000
496	Violation of Exam Security	100 to 1,000
<u>5027</u>	<u>Continuing Education Regulations</u>	<u>100 to 2,000</u>
<u>5037</u>	<u>Ownership of Accountants' Work Papers</u>	<u>150 to 2,000</u>
5050	<del>Practice without permit, Temporary Practice Out of State</del> <u>Practice Without Permit: Temporary Practice, Out-of-State Licensee</u>	150 to 2,000
5055	Title of Certified Public Accountant	150 to 2,000
5056	Title of Public Accountant	150 to 2,000
5058	Use of Confusing Titles or Designations Prohibited	100 to 2,000
5059	Partnership Names	100 to 1,000
5060	<del>Firm Names</del> <u>Name of Firm</u>	100 to 1,000
5061	Commissions	200 to 2,500
5062	<del>Reports on Financial Statement Required</del> <u>Report Conforming to Professional Standards</u>	200 to 2,500
<u>5063</u>	<u>Reportable Events</u>	<u>100 to 1,000</u>
5071	Restriction on Practice as Partnership	100 to 1,000
5072	Requirements for Registration as a Certified Public Accountant Partnership	150 to 2,000
5074	Requirements for Registration as Partnership of Public Accountants	150 to 2,000
5076	Termination of Partnerships	150 to 2,000
5078	Offices Not Under Personal Management of Certified Public Accountant or Public Accountant; Supervision	100 to 2,000
<u>5079</u>	<u>Non-Licensee Ownership</u>	<u>100 to 2,000</u>
5081	<del>Requirements for admissions to Examination for Certified Public Certificate</del> <u>Requirements for Admission To Certified Public Accountant Examination</u>	100 to 1,000
5081.1	<u>College Degree Educational Requirements</u>	100 to 1,000
5081.2	<del>Completion of College Within 120 Days of Examination</del>	<del>400 to 4,000</del>
5100	Discipline in General <del>(a) through (g)</del> <u>(a) through (j)</u>	500 to 2,500
<del>5100</del>	<del>Discipline in General (h) through (j)</del>	<del>500 to 2,500</del>
5101	Discipline of Partnership	100 to 2,000
5104	Relinquishment of Certificate or Permit	100 to 2,000
5105	Delinquency in Payment of Renewal Fee	100 to 2,000
5151	Application for Registration as Corporation	100 to 1,000
5152	<del>Corporation Annual Report Filing</del> <u>Corporation Reports</u>	100 to 1,000
<u>5152.1</u>	<u>Accountancy Corporation Renewal of Permit to Practice</u>	<u>100 to 1,000</u>
5153	Name of Corporation	100 to 1,000
5154	Directors, Shareholders and Officers Must Be Licensed	100 to 1,000
5155	Disqualified Shareholder Nonparticipation	100 to 1,000
5156	Unprofessional Conduct	200 to 2,000
5158	Practice of Public Accountancy; Management	100 to 2,000

\*References for Rules are to sections of Title 16 of the California Code of Regulations.

# Disciplinary Terminology

Effective Decision Date – The date the disciplinary action goes into operation.

Probation – The licensee may continue to practice under specific terms and conditions.

Revocation or Revoked – The right to practice is ended.

Stayed – The revocation or suspension is postponed.

Suspension – The licensee is prohibited from practicing for a specific period of time.

Surrender of License – The licensee turns in the license while charges are still pending. The right to practice is ended. Surrender also may require certain conditions to be met should practitioner ever choose to reapply for licensure.

## Correction to Previously Published Disciplinary Action

In **UPDATE**, Issue No. 34, the Board reported the disciplinary action regarding Victor Santos Sy and Sy Accountancy Corporation. The text of the disciplinary action stated that “For purposes of settlement, Respondent admits he engaged in fraud, dishonesty, **and** gross negligence in the practice of public accountancy by issuing unqualified reports on the audited financial statements of the Grand Chevrolet, Inc., when he knew repossession and bad debt losses were grossly understated.”

The correct presentation should have been, “For purposes of settlement, Respondent admits he engaged in gross negligence **or** dishonesty **or** fraud in the practice of public accountancy . . . .”

The disciplinary action against Mr. Sy and Sy Accountancy Corporation included suspension from practice for a period of one year. The suspension period has been satisfactorily completed, and practice rights have been fully restored. ★

## DISCIPLINARY ACTIONS

The disciplinary process has many steps. When a complaint is received by the Board, a thorough investigation is conducted under the auspices of the Board's Administrative Committee. Information regarding a complaint generally is gathered by staff Investigative CPAs, often accompanied by a licensee's appearance before the Administrative Committee. In some cases, information is gathered by the Department of Consumer Affairs' Division of Investigation. Following the investigation and review by the Administrative Committee, a recommendation is made either to close the case for lack of evidence, or to refer the matter to the Attorney General for review and preparation of an Accusation against the licensee.

If charges are filed against a licensee, a hearing is held before an independent administrative law judge, who submits a proposed decision to be considered by the Board of Accountancy. The Board either may accept the proposed decision or decide the matter itself. In many instances, licensees enter into a stipulated disciplinary settlement agreement with the Board, in lieu of going to hearing.

You may request a copy of the Accusation and Decision regarding any of these disciplinary actions by sending a written request to the Board office, Attention: Disciplinary Actions. You must state the licensee's name and license number. There is a \$3 fee for each request. Please make your check or money order payable to "Board of Accountancy," and allow approximately three weeks for receipt.

### BOARD ACTIONS 1/7/98 through 5/9/98 *Revocation of CPA Certificate*

Name	Cause for Discipline	Code Violation(s)
<b>DALE, RONALD</b> Hesperia, CA (CPA 31743)  <b>Revocation of CPA Certificate,</b> via default decision. <b>Effective May 1, 1998</b>	On or about April 21, 1995, a citation was issued to Respondent. Respondent failed to comply with the citation. As a result, Respondent's certificate is subject to discipline for unprofessional conduct.	Business and Professions Code § 5100(f). California Code of Regulations, Title 16, § 95.4.
<b>ERICKSON, JON R.</b> Laguna Beach, CA and Chicago, IL (CPA 30744)  <b>Revocation of CPA Certificate,</b> via default decision. <b>Effective March 8, 1998</b>	<p>During 1993 and until April 1994, Respondent was chief financial officer of Platinum Software Corporation (PSC), a publicly-traded company. Respondent participated in the recording of, or caused to be recorded, transactions for which revenue recognition was improper for the fiscal year ended June 30, 1993, and for the quarters ended September 30, 1993, and December 31, 1993. He signed Form 10-K for the fiscal year ended June 30, 1993, and Form 10-Q for the quarters ended September 30, 1993, and December 31, 1993, with full knowledge that the financial statements included therein incorporated entries that misstated revenues.</p> <p>On or about June 3, 1996, the Securities and Exchange Commission (SEC) entered an Order whereby, through a settlement offer, it permanently barred Respondent from practice before the SEC and banned him from serving as an officer or director of a publicly-traded company for 10 years.</p>	Business and Professions Code § 5100(g) and (i).

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## Disciplinary Actions

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## BOARD ACTIONS 1/7/98 through 5/9/98

### Revocation of CPA Certificate

Name	Cause for Discipline	Code Violation(s)
<b>FRAY, WILLIAM ALAN</b> San Diego, CA (CPA 30496)  <b>Revocation of CPA Certificate,</b> via default decision. <b>Effective March 8, 1998</b>	On or about April 3, 1996, a citation was issued to Respondent. Respondent failed to comply with the citation. As a result, Respondent's certificate was subject to discipline for unprofessional conduct.	Business and Professions Code § 5100(f). California Code of Regulations, Title 16, Division 1, § 95.4.
<b>HAYNES, JAMES BRIAN</b> San Diego, CA (CPA 54234)  <b>Revocation of CPA Certificate,</b> via proposed decision. <b>Effective March 12, 1998</b>	Respondent practiced public accountancy from December 1, 1994, through October 26, 1995, when he did not have a valid license. Respondent withdrew amounts of \$1,200, \$1,000, and \$6,790 from his client's bank account without the client's knowledge. Respondent also agreed to prepare and subsequently failed to prepare the 1994 income tax returns for this client. He failed to return the client's original records when requested, and the Respondent failed to return the records of another client when requested. Additionally, Respondent failed to meet the Board's continuing education requirements.	Business and Professions Code, §§ 5037(b), 5050; 5055; 5100(c), (f), (h), and (j). California Code of Regulations, Title 16, Division 1, §§ 68 and 87.
<b>LEUNG, BRUCE KING TONG</b> Daly City, CA (CPA 27830)  <b>Revocation of CPA Certificate,</b> via default decision. <b>Effective March 7, 1998</b>	On or about December 31, 1996, a citation was issued to Respondent. Respondent failed to comply with the citation and, as a result, Respondent's certificate was subject to discipline for unprofessional conduct.	Business and Professions Code § 5100(f). California Code of Regulations, Title 16, Division 1, Article 12.5, § 95.4
<b>LEVI, DAVID HOWARD</b> Beverly Hills, CA (CPA 61127)  <b>Revocation of CPA Certificate,</b> via stipulated settlement. <b>Effective May 1, 1998</b>	For purposes of settlement, Respondent neither admits nor denies the allegations contained in First Amended Accusation, but agrees to revocation of CPA Certificate. The charges are that on May 11, 1992, Respondent entered two pleas of guilty in the 363 <sup>rd</sup> Judicial District Court of Dallas County, Texas, involving theft from client trust funds.	Business and Professions Code § 5100(a) and (h).
<b>LINDEN, PATRICIA</b> Los Angeles, CA (CPA 34333)  <b>Revocation of CPA Certificate,</b> via stipulated settlement. <b>Effective May 1, 1998</b>	For purposes of settlement, Respondent admits that she was convicted on a plea of guilty for violating provisions of Title 18, United States Code, Section 371 (conspiracy), a felony, in the United States District Court for the Central District, entitled <u>United States of America v. Patricia Linden</u> .	Business and Professions Code § 5100 (a).

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## Disciplinary Actions

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## Board Actions 1/7/98 through 5/9/98

### Revocation of CPA Certificate

Name	Cause for Discipline	Code Violation(s)
<b>NOYER, JOHN CURTIS AL</b> Castro Valley, CA (CPA 24770)  <b>Revocation of CPA Certificate,</b> via default decision. <b>Effective May 1, 1998</b>	On or about March 14, 1996, a citation was issued to Respondent. Respondent failed to comply with the citation and, as a result, Respondent was subject to discipline for unprofessional conduct.	Business and Professions Code, § 5100(f). California Code of Regulations, Title 16, Division 1, § 95.4.
<b>PALMER, JEFFREY R.</b> Los Angeles, CA (CPA 34053)  <b>Revocation of CPA Certificate,</b> via proposed decision. <b>Effective May 1, 1998</b>	While on probation, Respondent violated the terms of his probation in that he failed to obey all federal, state, and local laws, including all published rules, relating to the practice of public accountancy in California; file timely quarterly reports; and conduct all of his engagements in the state of California in accordance with applicable professional standards and Board Regulations.	Business and Professions Code §§ 5050, 5055, 5100(f) and (i). California Code of Regulations, Title 16, Division 1, §§ 66, 87, and 89.
<b>RAINE, BRUCE LEONARD</b> San Ramon, CA (CPA 35126)  <b>Revocation of CPA Certificate,</b> via stipulated settlement. <b>Effective May 1, 1998</b>	<p>On July 18, 1995, Respondent pleaded guilty in United States District Court for the Eastern District of California to filing false claims against the United States in the matter of <u>United States of America v. Bruce Raine</u>. He was ordered to make restitution totaling \$306,000, jointly and severally with other defendants, and sentenced to a five-year probation term.</p> <p>Respondent agrees to refrain from applying for reinstatement for a period of at least five years from the effective date of the Board's decision, and to pay the Board for investigation and prosecution costs prior to filing any petition for reinstatement.</p>	Business and Professions Code § 5100 (a).
<b>THOMAS, JOHN C.</b> San Jose, CA (CPA 12290)  <b>Revocation of CPA Certificate,</b> via default decision. <b>Effective May 6, 1998</b>	Respondent pleaded guilty to a felony violation of filing false statements on tax returns.	Business and Professions Code § 5100(a) and (h).
<b>WEGNER, GAIL LORENE</b> Long Beach, CA (CPA 40593)  <b>Revocation of CPA Certificate,</b> via default decision. <b>Effective May 1, 1998</b>	On or about February 15, 1996, a citation was issued to Respondent. Respondent failed to comply with the citation. As a result, Respondent was subject to discipline for unprofessional conduct.	Business and Professions Code, § 5100(f). California Code of Regulations, Title 16, Division 1, § 95.4

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## Other Board Actions

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## Other Board Disciplinary Actions 1/7/98 through 5/9/98

Name	Cause for Board Action	Code Violation(s)
<b>CHEATHAM, J. BALLARD</b> San Diego, CA (CPA 13081)  <b>Surrender of CPA Certificate</b> , via stipulated settlement. <b>Effective March 12, 1998</b>	Respondent admits to the allegations contained in the Accusation; specifically, Respondent admits to performing two audits in a grossly negligent manner. Respondent further admits that he practiced public accountancy as a corporation without the required corporation permit and failed to maintain adequate records of his requisite continuing education documentation.	Business and Professions Code §§ 5050, 5062, 5100 (c) and (f), and 5150. California Code of Regulations, Title 16, Division 1, §§ 58, 67, 87, and 89.
<b>CROSBY, MELVIN E.</b> Cathedral City, CA (CPA 19473)  <b>Revocation stayed, with three years' probation</b> , via stipulated settlement. <b>Effective May 9, 1998</b>  Probation terms include: Respondent shall complete 40 hours of continuing education (CE) as directed by the Board or its designee in addition to the normal CE requirements for relicensing. Respondent shall, at his own expense, submit all work papers and draft reports relative to any audit or review engagements to an outside CPA for review. The reviewing CPA may be selected by the Respondent but must be acceptable to the Board or its designated representatives. Other standard terms and conditions.	For purposes of settlement, Respondent admits that he committed acts of gross negligence in his performance of an audit and in his preparation of an audit report for a homeowners association for the year ended December 31, 1994. Respondent issued a report that did not conform to professional standards for a nonprofit organization's pension plan for the year ended September 30, 1992. Respondent failed to renew his accountancy corporation and used corporate namestyles that had not been approved by the Board.	Business and Professions Code §§ 5062, 5100(c) and (f), and 5152. California Code of Regulations, Title 16, Division 1, §§ 58, 66, and 67.
<b>ELSBURG, MARK H.</b> Walnut Creek, CA (COR 3730), (CPA 25286)  <b>Revocation stayed, with 18 months' probation</b> , via stipulated settlement. <b>Effective May 9, 1998</b>  Respondent shall take and pass a Board-approved course in ethics. Respondent shall pay investigative and prosecution costs. Other standard terms and conditions.	For purposes of settlement, Respondent neither admits nor denies, but does not contest the charges contained in the Accusation. The Accusation alleges that Mark H. Elsberg, the sole shareholder of Elsberg Accountancy Corporation, directed four employees to contribute \$250 each to a specific candidate for local office. Elsberg Accountancy Corporation simultaneously reimbursed the employees for their contributions, thus circumventing campaign finance and reporting laws.	Business and Professions Code § 5100.

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## Other Board Actions

(continued from page 21)

## Other Board Disciplinary Actions 1/7/98 through 5/9/98

Name	Cause for Board Action	Code Violation(s)
<b>MERMELSTEIN, MILTON G.</b> Santa Ana, CA (CPA 12752)  <b>Revocation stayed, with three years' probation</b> , via stipulated settlement. <b>Effective May 7, 1998</b>  Probation terms include the following: completion of a Board-approved ethics examination. Completion of 40 hours of continuing education (CE) courses, to be designated by the Board or its representatives. This requirement shall be in addition to the CE requirements for relicensing. Reimbursement to the Board for investigative and prosecution costs. Completion of 35 hours of community service, to be arranged and coordinated by the Volunteer Center of Los Angeles. Other standard terms of probation.	<p>For purposes of settlement, Respondent admits that Respondent's audits of Everlast Filtration Corporation ("Everlast"), for the years ended December 31, 1989 and 1990, were grossly negligent. Respondent failed to adhere to Generally Accepted Auditing Standards in connection with said audits: in particular, Respondent failed to properly plan the engagement and to obtain sufficient competent evidential matter in support of the value of both real property and patents.</p> <p>The auditor's report and audited financial statements were included in the Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC) on May 6, 1991. On May 16, 1996, the SEC imposed sanctions, consented to by the Respondent, pursuant to which the Respondent was denied the privilege of appearing or practicing before the SEC as an accountant. The SEC's Order permits Respondent to apply to resume practice after five years.</p>	Business and Professions Code §§ 5062, 5100(c) and (f), and 5100(g). California Code of Regulations, Title 16, Division 1, § 58.

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## Other Board Actions

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## Other Board Disciplinary Actions 1/7/98 through 5/9/98

Name	Cause for Board Action	Code Violation(s)
<p><b>POLEP, RICHARD S.</b> Los, Angeles, CA (CPA 17527)</p> <p><b>Revocation stayed, with three years' probation</b>, via stipulated settlement. <b>Effective February 27, 1998</b></p> <p>Probation terms include: Respondent shall complete 150 hours of community service to be designated by the Board or its representative. Respondent shall complete in addition to the continuing professional education (CPE) requirements for renewal requirements, 24 hours of CPE courses to be designated by the Board or its representatives. Other standard terms and conditions.</p> <p><b>GRANT THORNTON LLP</b> Los Angeles, CA (PAR 172) All partners and principals located in California shall read the accusation and the stipulation and shall acknowledge having done so in writing. Respondent shall reimburse the Board for investigative costs. Respondent shall prepare a plan of practice to be implemented by the firm to prevent the reoccurrence of acts similar to those set forth in the accusation. Respondent shall prepare a training program covering the accounting and auditing issues in the Accusation to be attended within one year by all partners and principals of the Respondent located in California.</p>	<p>For purposes of settlement, the Respondents neither admit nor deny, but do not contest, the truth of the factual allegations set forth in the Accusation. The Accusation alleges that Respondents committed violations of gross negligence and knowing preparation of materially misleading reports or information. Specifically, the Accusation alleges Respondents committed violations for preparing a client's 1990 and 1991 individual income tax returns using estimates, but did not disclose the use of estimates within the returns. Failing to include on the client's 1990 and 1991 individual income tax returns salary in the amount of \$1.5 million and \$1.2 million, respectively, which was known to Respondent Grant Thornton based on its audits of the financial statements of S-Corporations owned by its client. Failing to prepare or recommend to the client the filing of amended 1990 and 1991 individual income tax returns. Respondent Richard S. Polep was the engagement partner in charge of the S-Corporation audits and signed the client's 1991 individual income tax return at issue.</p>	<p>Business and Professions Code §§ 5100(c) and (i).</p>

(Continued on page 24)



## Other Board Actions

(continued from page 23)

## Other Board Disciplinary Actions 1/7/98 through 5/9/98

Name	Cause for Board Action	Code Violation(s)
<b>TAGUE, MARK S.</b> Trabuco Canyon, CA (CPA41412)  <b>Revocation stayed, with three years' probation</b> , via stipulated settlement. <b>Effective March 8, 1998</b>  Probation terms include the following: completion of a Board-approved ethics examination. Reimbursement to the Board for investigation and prosecution costs. Other standard terms of probation.	From July 1992 until October 1993, Respondent was variously executive vice president/corporate controller, treasurer, and secretary of Platinum Software Corporation (PSC), a publicly-traded company. Respondent participated in the recording of, or caused to be recorded, transactions for which revenue recognition was improper for the fiscal year ended June 30, 1993, and for the quarter ended September 30, 1993.  On or about June 3, 1996, the Securities and Exchange Commission (SEC) entered an Order whereby, through a settlement offer, it barred the Respondent from practice before the SEC for five years.	Business and Professions Code § 5100(g) and (i).
<b>SAKASEGAWA, LYNN</b> Carmel Valley, CA (CPA68046)  <b>Revocation stayed, with three years' probation</b> , via stipulated settlement. <b>Effective May 6, 1998</b>  Respondent's CPA certificate is suspended for 60 days beginning the effective date of the Order. Respondent shall provide notice to a licensee employer (if any) of the suspension period. Respondent shall take and pass a Board-approved course in ethics. Respondent shall pay investigative and prosecution costs. Other standard terms and conditions.	For purposes of settlement, Respondent neither admits nor denies, but does not contest, the charges contained in the Accusation. The Accusation alleges that Lynn J. Sakasegawa applied for a personal home loan and, in support thereof, attached copies of her 1993 and 1994 federal income tax returns. In so doing, Respondent submitted tax returns that had never been filed with the Internal Revenue Service and showed adjusted gross income figures that were materially greater than the figures shown on the returns that were actually filed.	Business and Professions Code § 5100(i).
<b>SONNABEND &amp; SHU CPAS</b> Woodland Hills, CA (PAR 5184) <b>Sonnabend &amp; Shu Cpas Inc.</b> Woodland Hills, CA (COR 4370) <b>JOSEPH F. SONNABEND</b> Woodland Hills, CA (CPA22143) <b>IRENE S. SHU</b> Woodland Hills, CA (CPA38829) <b>Stipulated Settlement</b> <b>Effective March 7, 1998</b>  Respondents shall reimburse the Board for its investigative and prosecution costs.  Respondents shall, within the period of 12 months, perform 60 hours of Community Service to be arranged and coordinated by the Volunteer Center of Los Angeles.	On August 25, 1997, an Accusation was filed against Respondents Sonnabend & Shu CPAs (PAR 5184), Sonnabend & Shu CPAs Inc. (COR 4370), Joseph F. Sonnabend (CPA22143), and Irene S. Shu (CPA38829). The Accusation alleged that the Respondents did not comply with the citation which became a final order of the Board.  Failure to comply with a citation constitutes unprofessional conduct.  The Respondents admit that they have violated Business and Professions Code Sections 5100 and 125.9 and Title 16 of the California Code of Regulations, Section 95, as alleged in the Accusation.	Business and Professions Code, Division 3, Chapter 1, Article 6, § 100(f). California Code of Regulations, Title 16, Division 1, Article 12.5, § 95.4.

## **Future Board Meetings**

**November 20-21, 1998**

Radisson Miyako Hotel  
1625 Post Street  
San Francisco, California 94115

**January 21-22, 1999**

Embassy Suites Hotel  
1325 E. Dyer Road  
Santa Ana, California 92705

**March 20, 1999**

Los Angeles, California  
Location to be announced.

**May 13-14, 1999**

Radisson Miyako Hotel  
1625 Post Street  
San Francisco, California 94115

**July 15-16, 1999**

U. S. Grant  
326 Broadway  
San Diego, California 92101-9709

**September 16-17, 1999**

Los Angeles, California  
Location to be announced.

**November 18-19, 1999**

Radisson Miyako Hotel  
1625 Post Street  
San Francisco, California 94115

**Board meetings are open to the public.  
Licensees are encouraged to attend.  
For further information, please call the  
Board office at (916) 263-3680.**

## **Future Committee Meetings**

**Administrative Committee**

**November 4-5, 1998**

Orange County Airport Hilton  
18800 MacArthur Boulevard  
Irvine, California 92715

**January 7, 1999**

Westin Hotel - LAX  
5400 W Century Blvd.  
Los Angeles, CA 90045

**April 22, 1999**

Radisson Miyako Hotel  
1625 Post Street  
San Francisco, CA 94115

**June 24, 1999**

Sheraton Harbor Island  
1380 Harbor Island Drive

San Diego, CA 92101

**August 26, 1999**

Radisson Miyako Hotel  
1625 Post Street  
San Francisco, CA 94115

**November 3-4, 1999**

Orange County Area  
Location to be announced.

**Report Quality**

**Monitoring Committee**

**January 14, 1999**

Southern California  
Location to be announced.

**Qualifications Committee**

**October 21-22, 1998**

Renaissance Hotel  
9620 Airport Boulevard  
Los Angeles, California 90045

**January 6-7, 1999**

Radisson Miyako Hotel  
1625 Post Street  
San Francisco, California 94115

**Board of Accountancy  
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# Information

Each issue of **UPDATE** contains important information about the public accounting profession, including notices of proposed hearings on regulation changes, Board and committee meetings, proposed new regulatory language, and topical information about enforcement, examination, licensure, and continuing education issues. For ease of reference, we suggest that after you receive and read **UPDATE**, you place these issues in your professional library.

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**A separate change of address form must be submitted for each license type.**

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A licensee who fails to notify the Board of Accountancy within 30 days of a change in his/her address of record may be subject to citation and fine (fines ranging from \$100–\$1,000) under the California Code of Regulations, Title 16, Division 1, Sections 3 and 95.2.

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